SAWTOOTH INTERNATIONAL RESOURCES INC.

1999 ANNUAL REPORT

CORPORATE PROFILE

Sawtooth International Resources Inc. (Sawtooth) is a Canadian junior oil and gas company with operations in Western Canada. The Company is focused on cost effective exploitation of long life reserves and participation in low risk exploration. Sawtooth operates the majority of its production which is derived from the Redwater area of Alberta. Production from all areas in 1999 averaged 186 barrels of oil equivalent per day (boepd).

MISSION STATEMENT

The building of a solid, dynamic and highly profitable oil and gas company within the next three years through the innovative and prudent investment of Corporate resources.

1999 HIGHLIGHTS

- Average production up 33% from 140 boepd to 186 boepd
- Exit 1999 production at 206 boepd
- Risked reserves up 14% to 1,436,000 boe
- Reserves Net Present Value (NPV 10%) up 42% to $13,640,000
- Net Revenues up 48% to $1,561,000
- Cash flow from operations per share up 80% to $0.09
- Acquired additional interests in 6,400 acres (2,400 acres net)
- Added significant gas production from Cherhill in December 1999
- Farmed in on 37 sections of crown land at Marten hills, with drilling scheduled for the year 2000-2001.

REPORT TO SHAREHOLDERS

PERFORMANCE

1999 witnessed a dramatic turnaround in oil and gas prices. Sawtooth has continued to focus on its core properties at Redwater and Spirit River. Development activities were maintained and exploration lands were added throughout the year.

Reviewing the year as a whole, Sawtooth management is pleased to report a 93% increase in cash flow from operations to $708,000 and an increase in net earnings to $456,000, up from $157,000 in 1998.

ACQUISITIONS & DEVELOPMENT

Production from Redwater was steady through the year at 100 boepd. We have acquired additional reserves in this area as part of our overall strategy to improve performance by integrating new projects with existing operations.

In continuing to build its gas production base, Sawtooth is participating in gas development activities at Redwater, Spirit River and Cherhill.

Sawtooth has secured a seismic review option covering 37 sections of land in the Marten Hills area together with the acquisition of two additional crown sections. The prospective shallow gas targets can be capable of production at rates of approximately 1 million cubic feet per day per well.

OUTLOOK FOR 2000

The Company looks forward to an increasing rate of growth in the year 2000 as a result of improved commodity prices and ongoing development projects.

Gary W Waters

Gary Waters, President

T.C. Morey

Terrance C. Morey, Vice President Land

RESERVES SUMMARY

Reserves Category	Remaining Reserves W.I. Oil MSTB	W.I. NGLs MSTB	W.I. Sales Gas MMcf	Net Oil MSTB	Net NGLs MSTB	Net Sales Gas MMcf
Proved Producing	403.0	7.1	2,141.3	351.5	5.5	1,650.4
Proved Non-Producing	376.0	18.7	2,379.2	331.7	13.7	1,797.0
Total Proved	779.0	25.8	4,520.5	683.2	19.2	3,447.4
Probable (Not Risked)	298.3	4.5	547.2	249.0	3.3	427.7
Total Proved + 50% Probable	928.2	28.1	4794.1	807.7	20.9	3661.3

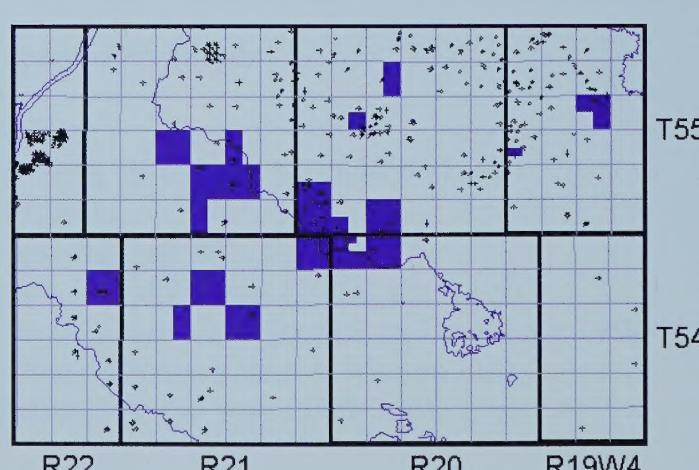
REVIEW OF CORE PROPERTIES

Redwater

Redwater is Sawtooth's core property, comprising 45% of the Company's producing reserves. Sawtooth operates seven (7) producing wells complete with associated battery and pipeline facilities. Production was constant throughout the year with consistently high netbacks. Total net production at the end of 1999 was 110 boepd.

An acquisition during the year increased Sawtooth's land holdings to approximately 5,500 net acres. In addition to the lands, Sawtooth has acquired an average 32% working interest in two producing gas wells and a gas gathering infrastructure.

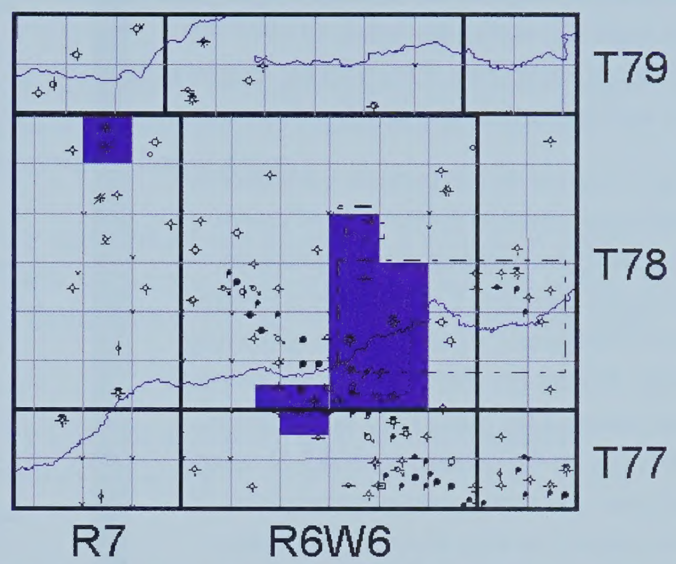
The Company is implementing plans to bring on stream additional production through re-completions, tie-ins and the conservation of flared gas.



Spirit River

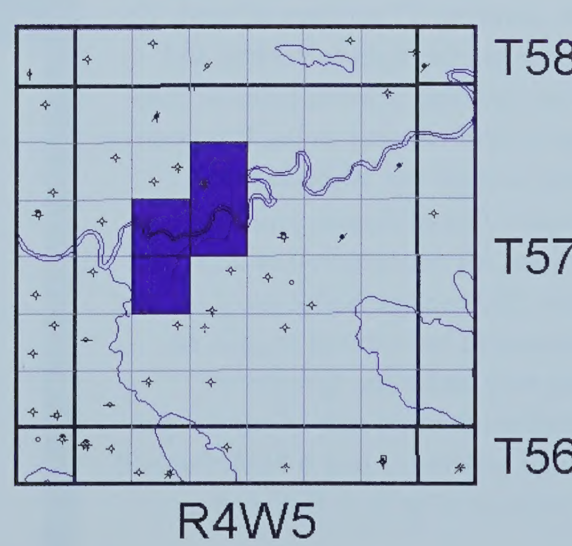
In the Spirit River area of Alberta, the Company owns a 7.8% working interest in the Spirit River Triassic Unit No.1. Production in 1999 averaged 74 boepd net to the Company.

Infill drilling and oil production enhancements are scheduled throughout the year 2000. A recently completed reservoir study has identified multiple underdeveloped targets within the unit lands.



Cherhill

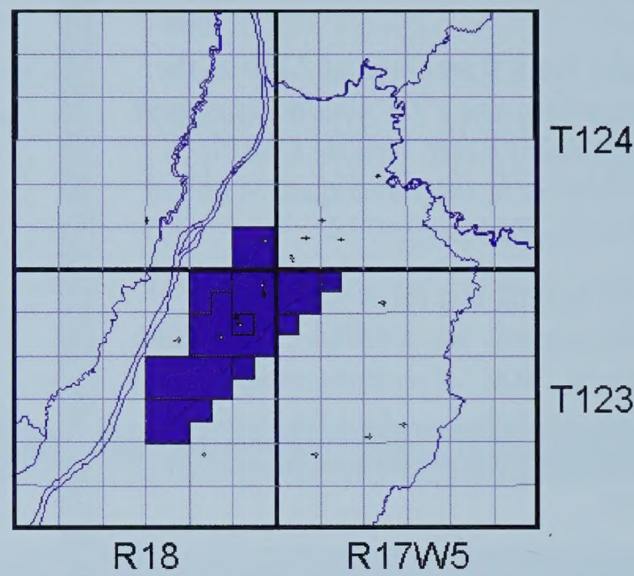
At Cherhill, Sawtooth participated (25%) in the equipping and tie-in of a significant Banff Gas well currently producing in excess of 1.8 mcf/d (450 mcf/d net). With a 25% interest in 2 adjoining sections of land, and a 100% interest in a section directly offsetting the producing well, Sawtooth and partners are reviewing drilling plans to develop the offsetting lands during the first half of 2000.



Lessard

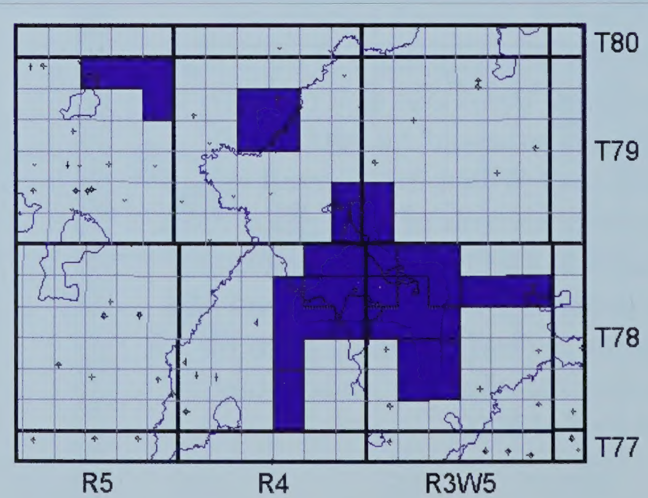
The Lessard property consists of ten (10) contiguous sections of land in which Sawtooth controls an average 15% working interest. A horizontal re-entry well at 13-25-123-18W5M was drilled in 1997. This Keg River well produced 29 degree API oil at 250 bopd gross (50 bopd net) during the winter of 1997-98. Sawtooth maintains a 20% working interest in the well before payout and 10% after payout.

The Company and its partners subsequently purchased a total of 6,400 acres of crown mineral rights covering the prospect area. Sawtooth considers Lessard to be a valuable asset strategically located for future development. Recent gas discoveries in the area indicate potential for Slave Point and Sulphur Point gas on the Lessard land. A 3-D seismic program is currently being contemplated to fully realize the Keg River oil production.



Marten Hills

The Marten Hills area of North Central Alberta represents a potentially significant shallow gas property in which Sawtooth acquired two sections of crown lands as well as a Seismic Review Option covering 37 sections of land. The Company has the right to review and reprocess existing seismic prior to committing to drill earning wells. Prospective horizons include the Wabiskaw, Clearwater, Grand Rapids and Viking formations, all encountered at depths of less than 700 meters. Subsequent to year end, Sawtooth has elected to drill an earning well under the agreement. Expected production rate of natural gas can range between 1 and 5 MMcf/d/well with reserves of up to 5 Bcf/section.



MANAGEMENT'S RESPONSIBILITY STATEMENT

The management of Sawtooth International Resources Inc. is responsible for preparing the financial statements, the notes to the financial statements and other financial information contained in this annual report.

Management prepares the financial statements in accordance with accounting principles generally accepted in Canada. The financial statements are considered by management to present fairly the Company's financial position and the results of operations.

Management, in fulfilling its responsibilities, has established and maintains a system of internal accounting controls designed to provide reasonable assurance that Company assets are safeguarded from loss or unauthorized use and that financial records are reliable for preparing financial statements.

The financial statements have been examined by Deloitte & Touche LLP, external auditors appointed by the shareholders. Their report outlines the scope of their examination and their opinion on the financial statements.

Gary W Waters

Gary Waters, President.

Deloitte & Touche LLP
2400 Scotia Centre
700 Second Street SW
Calgary, Alberta T2P 0S7
Telephone: 403-267-1700
Facsimile: 403-264-2871

Auditors' Report To the Shareholders of Sawtooth International Resources Inc.:

We have audited the balance sheets of Sawtooth International Resources Inc. as at December 31, 1999 and 1998 and the statements of operations and retained earnings (deficit) and cash flows for the year ended December 31, 1999 and the fourteen month period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the year ended December 31, 1999 and the fourteen month period ended December 31, 1998 in accordance with accounting principles generally accepted in Canada.

Deloitte & Touche LLP

Calgary, Alberta
February 11, 2000

Deloitte & Touche LLP
Chartered Accountants

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

	Dec. 31, 1999 (12 months) $	Dec. 31, 1998 (14 months)* $
REVENUES		
Oil and gas sales	**1,802,395**	1,189,656
Royalties	**(262,471)**	(153,476)
Alberta royalty tax credit	**21,000**	17,798
	1,560,924	1,053,978
EXPENSES		
Operating costs	**427,988**	375,434
Depletion and depreciation	**252,169**	209,272
Interest on bank loan	**263,919**	169,679
General and administrative	**160,788**	142,310
	1,104,864	896,695
EARNINGS BEFORE DEFERRED INCOME TAXES	**456,060**	157,283
Deferred Income Taxes (Note 6)	**96,839**	
NET EARNINGS	**359,221**	157,283
DEFICIT, BEGINNING OF PERIOD	**(36,069)**	(193,352)
RETAINED EARNINGS (DEFICIT), END OF PERIOD	**323,152**	(36,069)
EARNINGS PER SHARE		
Basic	**$ 0.05**	$ 0.02
Fully diluted	**$ 0.04**	$ 0.02

*Comparative dates differ as a result of a reporting change to a December 31 year end in 1998.

BALANCE SHEET
As at December 31, 1999

	Dec. 31, 1999	Dec. 31, 1998
	$	$
ASSETS		
CURRENT		
Cash	**31,891**	32,571
Accounts receivable and prepaid expenses	**383,835**	288,594
	415,726	321,165
Capital assets (Note 3)	**5,006,845**	4,306,500
	5,422,571	4,627,665
LIABILITY AND SHAREHOLDERS' EQUITY		
CURRENT		
Accounts payable and accrued liabilities	**328,377**	224,000
Bank loan (Note 4)	**3,300,000**	3,350,000
Deferred income taxes	**73,823**	-
Accrued site restoration costs	**48,350**	29,900
	3,750,550	3,603,900
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	**1,348,869**	1,059,834
Retained earnings (deficit)	**323,152**	(36,069)
	1,672,021	1,023,765
	5,422,571	4,627,665

APPROVED BY THE BOARD

.... **Director**

.... **Director**

	Dec. 31, 1999 (12 months) $	Dec. 31, 1998 (14 months)* $
CASH FLOW RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net earnings	**359,221**	157,283
Item not affecting cash		
Depletion and depreciation	**252,169**	209,272
Deferred income taxes	**96,839**	-
Cash flow from operations	**708,229**	366,555
Changes in non-cash working capital	**9,136**	15,947
	717,365	382,502
FINANCING		
Issuance of share capital, net of costs of $2,302 (1998-$5,131)	**266,019**	282,889
Bank financing	**(50,000)**	3,288,250
	216,019	3,571,139
INVESTING		
Oil and gas property expenditures	**(926,578)**	(3,394,001)
Office furniture and equipment	**(7,486)**	(20,416)
Decrease in accrued asset acquisition	**-**	(572,228)
	(934,064)	(3,986,645)
NET DECREASE IN CASH	**(680)**	(33,004)
CASH, BEGINNING OF PERIOD	**32,571**	65,575
CASH, END OF PERIOD	**31,891**	32,571
Cash flow from operations per share basic and fully diluted	**$ 0.09**	$ 0.05

*Comparative dates differ as a result of a reporting change to a December 31 year end in 1998.

1. NATURE OF OPERATIONS

Sawtooth International Resources Inc. (the "Company") is engaged primarily in the exploration for and production of petroleum and natural gas reserves in Western Canada.

During 1998, the Company gained approval to change its fiscal year-end from October 31 to December 31, effective December 31, 1998. This was done in order to bring the financial reporting of the Company into line with most of its peers, allowing for better comparability.

2. SIGNIFICANT ACCOUNTING POLICIES

Petroleum and natural gas properties

a) Capitalized costs

The Company follows the full cost method of accounting for petroleum and natural gas properties whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized into a single Canadian cost centre. Such costs include land acquisition costs, geological and geophysical expenses, direct general and administrative charges pursuant to standard industry operating agreements, lease rentals on non-producing properties, the cost of drilling both productive and non-productive wells, including production equipment and the cost of constructing processing facilities. Proceeds received from disposal of property interests are credited against accumulated costs except when the disposition results in a significant change in the depletion rate, in which case a gain or loss on disposal is recognized.

b) Depletion and depreciation

Depletion of exploration and development costs and depreciation of production equipment is provided using the unit-of-production method based upon estimated proved petroleum and natural gas reserves. The costs of significant undeveloped properties are excluded from costs subject to depletion. For depletion and depreciation purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

The Company provides for depreciation of its office equipment using the declining-balance basis at 20% per annum.

c) Ceiling test

In applying the full cost method, the Company calculates a ceiling test whereby the carrying value of and the accumulated provision for site restoration and abandonment costs, is compared annually to an estimate of future net cash flow from the production of proved reserves. Net cash flow is estimated using year-end prices, less future estimated general and administrative expenses, financing costs, site restoration and abandonment costs and income taxes. Should this comparison indicate an excess carrying value, the excess is charged against earnings as additional depletion and depreciation expense.

Future site restoration and abandonment costs

Estimated costs of future site restoration and abandonment, net of recoveries, are provided for over the life of proved reserves on a unit-of-production basis. An annual provision is recorded as additional depletion and depreciation. The accumulated provision is reflected as a non-current liability and actual expenditures are charged against the accumulated provision when incurred.

Financial instruments

Financial instruments of the Company include accounts receivable, accounts payable and accrued liabilities and a bank loan. Unless otherwise disclosed, there are no significant differences between the carrying value of these amounts and their estimated fair value.

Joint operations

Certain petroleum and natural gas activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

Flow-through shares

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Petroleum and natural gas properties and capital stock are reduced by the estimated tax benefits transferred to shareholders.

Income taxes

The Company follows the tax allocation method of accounting for the tax effect of the timing differences between taxable income and income recorded in the financial statements net of loss carry forwards. Timing differences arise when, for tax

purposes, the Company deducts exploration and development expenditures in amounts differing from those charged to expense in the financial statements.

Stock-based compensation plans

The Company has a stock-based compensation plan which is described in Note 5. No compensation expense is recognized for this plan when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital. If stock or stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock or stock option cancelled is charged to retained earnings.

3. CAPITAL ASSETS

	December 31, 1999	December 31, 1998
	$	$
Exploration and development costs	4,372,537	3,836,101
Tax benefits transferred to shareholders	(65,591)	(33,911)
	4,306,946	3,802,190
Accumulated depletion	(405,690)	(226,170)
	3,901,256	3,576,020
Production equipment	1,170,746	748,924
Office equipment	36,943	29,457
	1,207,689	778,381
Accumulated depreciation	(102,100)	(47,901)
	1,105,589	730,480
	5,006,845	4,306,500

During the year ended December 31, 1999, the Company incurred $254,624 (1998 -$190,086) of general and administrative expenses which are directly related to the Company's acquisition, exploration and development activities and have been capitalized as part of exploration and development costs.

Exploration and development costs include costs of $132,728 (1998 - $204,143) relating to undeveloped land, which have been excluded from the amounts subject to depletion and depreciation.

4. BANK LOAN

The bank loan consists of a revolving demand credit facility in the amount of $3,400,000, bears interest at prime plus 2% and is subject to annual review by the bank. The loan is secured by a General Security Agreement charging all present and after acquired assets of the Company, with a floating charge over all Company assets.

5. SHARE CAPITAL

a) Common shares

Authorized: Unlimited number of common voting shares

	1999		1998	
	Number of Shares	**$ Amount**	Number of Shares	$ Amount
Issued beginning of period	**7,417,500**	**1,059,834**	6,302,000	776,945
Issuance of common shares, net of costs of $2,302 (1998-$5,131), Note 5(e)	**1,050,000**	**297,698**	700,000	194,869
Tax benefit of flow-through shares renounced	**-**	**(31,679)**	-	(33,911)
Warrants exercised for cash	**-**	**-**	415,500	121,931
Tax benefit of share issue costs	**-**	**23,016**	-	-
End of period	**8,467,500**	**1,348,869**	7,417,500	1,059,834

b) Stock-based compensations plans

The Company has a stock-based compensation plan (the "Plan") whereby the Company may grant options to its employees, directors and consultants for up to 10% of the outstanding listed shares of common stock. Under the Plan, the exercise price of each option is set by the Board of Directors at its discretion from time to time, but shall not be less than the market price of the Company's stock on the day prior to the date of grant, less any applicable discount as permitted by the regulatory authority or stock exchange having jurisdiction over the securities of the Company. The options' maximum term is five years.

A summary of the status of the Company's stock option plan as of December 31, 1999 and 1998, and changes during the periods ending on those dates is presented below:

	1999			1998		
	Number of Shares	**Weighted Average Exercise Price $**	Exercise Date	Number of Shares	Weighted Average Exercise Price $	Exercise Date
Outstanding beginning of period	555,200	**0.26**	March 10, 2002	540,000	0.26	March 10, 2002
Granted	276,750	**0.20**	June 15, 2004	90,200	0.25	March 11, 2002
Exercised	-			-		
Cancelled	(90,200)	**0.25**		(75,000)	0.28	
Outstanding end of period	741,750	**0.24**		555,200	0.26	

c) Warrants

At December 31, 1999, 750,000 (1998 - 300,000) warrants were outstanding, exercisable to purchase one common share at $0.35 per share with 300,000 expiring December 31, 2000 and 450,000 expiring November 30, 2001.

d) Escrowed shares

At December 31, 1999, 754,336 common shares previously issued on October 19, 1994 and April 23, 1997 were held in escrow. These shares were released in accordance with the provisions of Alberta Securities Commission Policy 4.11 on January 31, 2000.

e) Issuance of common shares

During 1999, the Company issued 300,000 units at $1.00 per unit, for total proceeds of $300,000. Each unit was comprised of one and one-half common shares, two flow-through shares and one and one half warrants. Each whole warrant is exercisable to purchase one common share at $0.35 per share, expiring November 30, 2001. The terms of the flow-through shares provide that the Company renounce tax deductions in the amount of $210,000 by December 31, 2000. No value has been attributed to the warrants.

During 1998, the Company issued 200,000 units at $1.00 per unit, for total proceeds of $200,000. Each unit was composed of one and one-half common shares, two flow-through shares and one and one-half warrants. Each whole warrant is exercisable to purchase one common share at $0.35 per share expiring December 31, 2000. The terms of the flow-through shares provide that the Company renounce tax deductions in the amount of $140,000 of which $76,000 were incurred and renounced to December 31, 1998, and the remaining $64,000 renounced during 1999. No value has been attributed to the warrants

f) Weighted average number of shares

The weighted average number of shares used in the calculation of basic and fully diluted earnings and cash flow per share for the year ended December 31, 1999 is 7,506,678 (period ended December 31, 1998 - 6,616,731).

g) Preferred shares

An unlimited number of non-voting preferred shares have been authorized and may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

h) Subscriptions

Accounts receivable at December 31, 1998 includes $147,250 relating to subscriptions to be received with respect to the Company's issue of 147,250 units on December 31, 1998. All amounts were received during 1999.

6. INCOME TAXES

Income tax expense is different from the amount computed by applying the combined expected Canadian federal and provincial tax rates of 44.62% to earnings before taxes. The reasons for this difference are as follows:

	1999	1998
	(12 months)	(14 months)
	$	$
Computed expected tax expense	**203,494**	70,180
Increase (decrease) in taxes resulting from:		
Crown royalties	**82,810**	48,964
Alberta royalty tax credit	**(9,370)**	(7,941)
Utilization of non-capital losses carried forward	**(59,345)**	(80,880)
Resource allowance	**(120,750)**	(76,390)
Tax benefit not recognized	**-**	46,067
	96,839	-

7. SEGMENTED INFORMATION

The Company operated in only one business segment as its operating activities are related to exploration, development and production of petroleum and natural gas in Canada.

The Company sells its petroleum and natural gas products to various purchasers. For 1999 and 1998, one purchaser accounted for approximately 80% and 95%, respectively, of the Company's gross revenues.

8. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been classified to conform to the current year's presentation.

Office

Sawtooth International Resources Inc.
Suite 520, 734 - 7th Avenue SW
Calgary, Alberta, Canada
T2P 3P8

Phone: (403) 263-5800
Fax: (403) 262-3874
Email: sawtooth@cadvision.com

Directors

Gordon A. Robertson
Chairman,
Sawtooth International Resources Inc.

Chairman and CEO,
New Earth Exploration Ltd.

President,
Struan Resources Ltd.

Charlie Vandaele
President,
March Sun Investments Ltd.

H. Geoffrey Waterman
Vice President,
Franco-Nevada Mining Corporation Limited.

Eric J. Allen
Engineer,
LAS Energy Associates Ltd.

Alfred F. Fischer
Industry Consultant

Gary W. Waters
President,
Sawtooth International Resources Inc.

Management

Gary W. Waters
President and Director

Terrance C. Morey
Vice-President, Land

Team Members & Consultants
Al Albertson, Engineer
Jace Clark, CGA
George Chan, CGA
Helen Wade, Accountant

Legal Council

Miller Thompson
Calgary, Alberta

Auditors

Deloitte & Touche LLP
Chartered Accountants

Bank

Alberta Treasury Branches
Calgary, Alberta

Transfer Agent

Montreal Trust
Calgary, Alberta

Listing

Canadian Venture Exchange
Symbol: SAW

Abbreviations

boe	barrels of oil equivalent
boepd	barrels of oil equivalent per day
MSTB	thousand standard barrels
MMcf	million cubic feet
mcf/d	thousand cubic feet per day
bopd	barrels of oil per day
Bcf	billion cubic feet
NGLs	natural gas liquids

NOTICE OF MEETING

The Annual General Meeting of the shareholders of Sawtooth International Resources Inc. will be held at:
The 400 Club, Barber Room,
710-4th Avenue SW, Calgary
on
Monday June 20, 2000 at 3:00pm.

Sawtooth International Resources Inc.
Suite 520, 734 - 7th Avenue SW
Calgary, Alberta, Canada
T2P 3P8

Phone: (403) 263-5800
Fax: (403) 262-3874
Email: sawtooth@cadvision.com